

1999 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, March 2000

AUSTRALIA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated) 1/

	1997	1998	1999	2/
<i>Income, Production and Employment:</i>				
Nominal GDP 3/	405.2	364.0	390.7	
Real GDP Growth (pct)	5.2	4.6	3.0	
GDP by Sector: 4/				
Agriculture	12.0	10.5	10.7	
Manufacturing	96.3	85.0	88.9	
Services	274.7	247.8	269.2	
Government	16.7	14.2	14.6	
Per Capita GDP (US\$)	22,500	19,700	20,500	
Labor Force (000s)	9,220	9,345	9,461	
Unemployment Rate (pct)	8.5	8.0	7.3	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M3)	6.3	7.6	8.8	
Consumer Price Inflation	-0.2	1.6	2.5	
Exchange Rate (Aust\$/US\$ annual average)				
Official	N/A	N/A	N/A	
Parallel	1.36	1.59	1.56	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	62.5	55.9	60.4	
Exports to U.S.	4.6	5.3	7.0	
Total Imports CIF	61.5	60.9	64.3	
Imports from U.S.	13.4	13.6	14.8	
Trade Balance	1.0	-4.9	-3.8	
Balance with U.S.	-8.7	-8.3	-7.7	
External Public Debt	44.2	33.7	25.7	
Fiscal Deficit/GDP (pct)	-0.2	-0.5	-0.8	
Current Account Deficit/GDP (pct)	3.1	4.8	5.5	
Debt Service Payments/GDP	2.2	1.8	1.8	
Gold and Foreign Exchange Reserves	17.2	15.5	15.9	

Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0

1/ Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.

2/ 1999 figures are estimates based on available monthly data in November.

3/ Income measure of GDP.

4/ Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (7 percent of GDP combined) that account for the bulk (58 percent) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market: 19 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just under 12 percent of GDP.

The Asian economic downturn has yet to have a significant impact on economic growth, despite forcing many exporters to target alternative markets. With inflation well under control (Australia recorded annual price deflation for the first time in 35 years in 1997), the task for economic policy makers is to lower the unemployment rate, which remains stubbornly mired in the 8.0 percent range.

The Liberal/National coalition government continued its program of fiscal consolidation in its budget for the 1999-2000 fiscal year, announcing a budget surplus of \$3 billion.

2. Exchange Rate Policies

Australian Dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the Reserve Bank of Australia (RBA) does operate in currency markets. The RBA is active in what it describes as "smoothing and testing" foreign exchange rates, in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A\$5,000 in cash is to be taken out of Australia at any one time, or A\$50,000 in any form in one year. The purpose of this regulation is to prevent tax evasion and money laundering; authorization is usually automatic.

3. Structural Policies

The government is continuing a program of economic reform, begun in the 1980s, that includes the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes and reform of the labor market. The government is also continuing with the privatization of public assets. Federal Government ownership in telecommunications carrier Telstra has been reduced (via two public floats) to 51%.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at 5 percent. However, the passenger motor vehicles and textiles, clothing and footwear industries are still protected by high tariffs (17.5 and 17-28 percent

respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000 (where they will remain, pending further review, until 2005).

The Liberal/National coalition government recently passed legislation altering the structure of Australia's income and sales tax system, and currently has before parliament legislation reforming the business taxation system.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-1998 totaled \$145 billion (39 percent of GDP). Australia's net external public debt is \$28 billion, or 7 percent of GDP. The public sector accounts for 19 percent of Australia's external debt; the remainder is the responsibility of the private sector. The Federal Government is using its privatization receipts and budget surpluses to further reduce its debt obligations. The net debt-service ratio (the ratio of net income payable to export earnings) has remained at or below 10 pct since 1997, down from 21 percent in 1990.

5. Significant Barriers to U.S. Exports

Australia is a signatory to the WTO, but is not a member of the plurilateral WTO Agreement on Government Procurement.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Broadcast licensing rules were also liberalized in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material (far greater than the percentage of non-Australian messages actually broadcast).

Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs (The U.S. regrets that this requirement was recently increased from 50 percent). Regulations governing Australia's pay-TV industry require that channels carrying drama must devote 10 pct of program expenditure to new Australian-produced content (though they are not required to actually screen the programs produced).

Standards: Australia became a signatory to the GATT Technical Barriers to Trade Agreement in 1992. However, Australia still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards, with the objective of fulfilling all obligations of the GATT Technical Barriers to Trade Agreement.

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade. The Federal and State Health Ministries, working with the Government of New Zealand, are currently reviewing proposals to label products containing genetically modified organisms and have agreed to consider issues of consumer information, health, implementation costs of a labeling regime, and potential impact on Australian exports.

Commodity Boards: Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by the producers, but some boards enjoy export monopoly powers conferred by the federal or state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The government has indicated that the Australian wheat board (which strictly regulates wheat marketing abroad) may have its export monopoly reviewed during 2000, though the terms of the review have yet to be announced. The export of barley from certain states likewise remains strictly regulated.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant quarantine restrictions. The WTO SPS agreement requires, among other things, that Australia's restrictions undergo a risk assessment to ensure that any restrictions are science-based, rather than disguised non-tariff barriers. Concerns remain with Australia's restrictions on chicken (fresh, cooked and frozen), pork, California table grapes, Florida citrus, stone fruit, apples, Pacific North-West cherries, timber and corn.

Investment: The government requires notification of (but normally raises no objections to) investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests in existing Australian businesses with assets of A\$5 million or more (A\$3 million for rural properties); new businesses involving an investment of A\$10 million or more; portfolio investments in the media sector of 5 percent or more; all non-portfolio investments irrespective of size; takeovers of Australian companies valued at either A\$20 million or more, or for more than 50 percent of the target company's total assets; and direct investment of foreign governments irrespective of size. Investment proposals for entities involving more than A\$50 million in total assets are approved unless found contrary to the national interest. Special regulations apply to investments in the banking sector, the media sector, urban real estate and civil aviation.

Divestment cannot be forced without due process of law. There is no record of forced divestment outside that stemming from investments or mergers that tend to create market dominance, contravene laws on equity participation, or result from unfulfilled contractual obligations.

Government Procurement: Since 1991, foreign information technology companies with annual sales to the Australian Government of A\$10-40 million (US\$6-24 million) have been required to enter into Fixed Term Arrangements (FTAs), and those with sales greater than A\$40 million into Partnerships for Development (PFDs). Under an FTA, a foreign company commits to undertake local industrial development activities worth 15 percent of its projected amount of government sales over a four year period. Under a PFD, a foreign firm agrees to invest 5 percent of its annual local turnover on research and development in Australia; export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software companies); and achieve 70 percent local content across all exports within the seven year life of the PFD.

Recent changes to Australian Government procurement policies have seen a significant decentralization of purchasing procedures, with the introduction of Endorsed Supplier Arrangements (ESA). Companies wishing to supply information technology (IT) products and major office machines to the Australian government must gain endorsement under the ESA. The industry development component of the new ESA requires evidence of product development, investment in capital equipment, skills development and service support, and sourcing services and product components, parts and/or input locally. In addition, applicants must demonstrate performance in either exports, research and development, development of strategic relationships with Australian or New Zealand suppliers/customers, or participation in a recognized industry development program.

The Australian Government maintains its commitment to source at least 10 percent of its purchases from Australian small to medium size enterprises. The government will continue to require tenderers to include industry development objectives in tender documents, with model guidelines to be developed in consultation with industry.

Motor Vehicles: The import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A\$20,000 for each make of car imported. Left hand drive cars must be converted to right hand drive (only by licensed garages) before they may be driven in Australia.

6. Export Subsidies Policies

Australia is a member of the WTO Agreement on Subsidies and Countervailing Measures.

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A\$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products. Such schemes are available in the passenger motor vehicle and

the textiles, clothing and footwear industries. Grants schemes and tariff concessions have also been subject to expenditure reductions. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was reduced from 150 percent to 125 percent. The only remaining bounty (production subsidy) assists shipbuilders, and is due to expire on December 31, 2000.

The Pharmaceutical Industry Investment Program is designed to compensate manufacturers of pharmaceutical products for the effects of the federal government's intervention (through the national health system) in the market for consumer pharmaceuticals. Under the scheme, approved producers receive higher prices for selected products in return for commitments to undertake domestic drug research and development.

7. Protection of U.S. Intellectual Property

Australia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including: the Paris Convention for the Protection of Industrial Property; the Berne Convention for the Protection of Literary and Artistic Works; the Universal Copyright Convention; the Geneva Phonogram Convention; the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations; and the Patent Cooperation Treaty. Australia has yet to take action on the new WIPO Copyright treaties. USTR has placed Australia on the Special 301 Watch List because of limitations in its protection of test data and parallel imports, among other concerns.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes relating to artificial human reproduction). They are protected by the Patents Act (1990), which offers coverage for 20 years subject to renewal. Trade secrets are protected by common law, such as by contract. Design features can be protected from imitation by registration under the Designs Act for up to 16 years (upon application).

Test Data: In 1999, the government passed legislation providing five years of protection of test data for the evaluation of a new active constituent for agricultural and veterinary chemical product. No protection is provided for data submitted in regard to new uses and formulations.

Trademarks and Copyrights: Australia provides TRIPs compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection. The Australian Copyright Act provides protection regarding public performances in hotels and clubs. In recent years, the government has passed legislation removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling, and allowing the decompilation of computer software.

New Technologies: Infringement of new technologies does not appear to be a significant problem.

8. *Worker Rights*

a. The Right of Association: Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions. Australia has ratified most major international labor organization conventions regarding worker rights.

b. The Right to Organize and Bargain Collectively: Approximately 32 percent of the Australian workforce belongs to unions. The industrial relations system operates through independent federal and state tribunals; unions are currently fully integrated into that process. Legislation reducing the powers of unions to represent employees and of the Industrial Relations Commission to arbitrate settlements was passed by Federal Parliament in November 1996. Further changes in industrial relations are under consideration in draft legislation currently before Parliament.

c. Prohibition of Forced or Compulsory Labor: Compulsory and forced labor are prohibited by conventions which Australia has ratified, and are not practiced in Australia.

d. Minimum Age for Employment of Children: The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 or 16 maintains an effective floor on the age at which children may be employed full time.

e. Acceptable Conditions of Work: There is no legislatively-determined minimum wage. An administratively-determined minimum wage exists, but is now largely outmoded, although some minimum wage clauses still remain in several federal awards and some state awards. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or federal tribunals. Workers in Australian industries generally enjoy hours, conditions, wages and health and safety standards that are among the best and highest in the world.

f. Rights in Sectors with U.S. Investment: Most of Australia's industrial sectors enjoy some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differentiate between domestic and foreign ownership.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	4,344
Total Manufacturing	6,387
Food & Kindred Products	662
Chemicals & Allied Products	2,749
Primary & Fabricated Metals	359
Industrial Machinery and Equipment	586
Electric & Electronic Equipment	173
Transportation Equipment	581
Other Manufacturing	1,278
Wholesale Trade	2,057
Banking	2,595
Finance/Insurance/Real Estate	8,347
Services	2,198
Other Industries	7,748
TOTAL ALL INDUSTRIES	33,676

Source: U.S. Department of Commerce, Bureau of Economic Analysis.